



DCAA

DEFENSE CONTRACT AUDIT AGENCY

DCAA Update

Protecting the Taxpayer



Supporting the Warfighter



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Chief, Accounting and Cost Principles
Policy and Plans

The views expressed in this presentation are DCAA's views and not necessarily the views of other DoD organizations

One Agency – One Mission

- Mission
- Organization
- FY 2017 Priorities
- DCAA Services
 - Forward Pricing
 - Incurred Cost
- Centers of Excellence
 - Business Systems
 - Truth in Negotiations
- Commercial Pricing
- FY 2017 NDAA

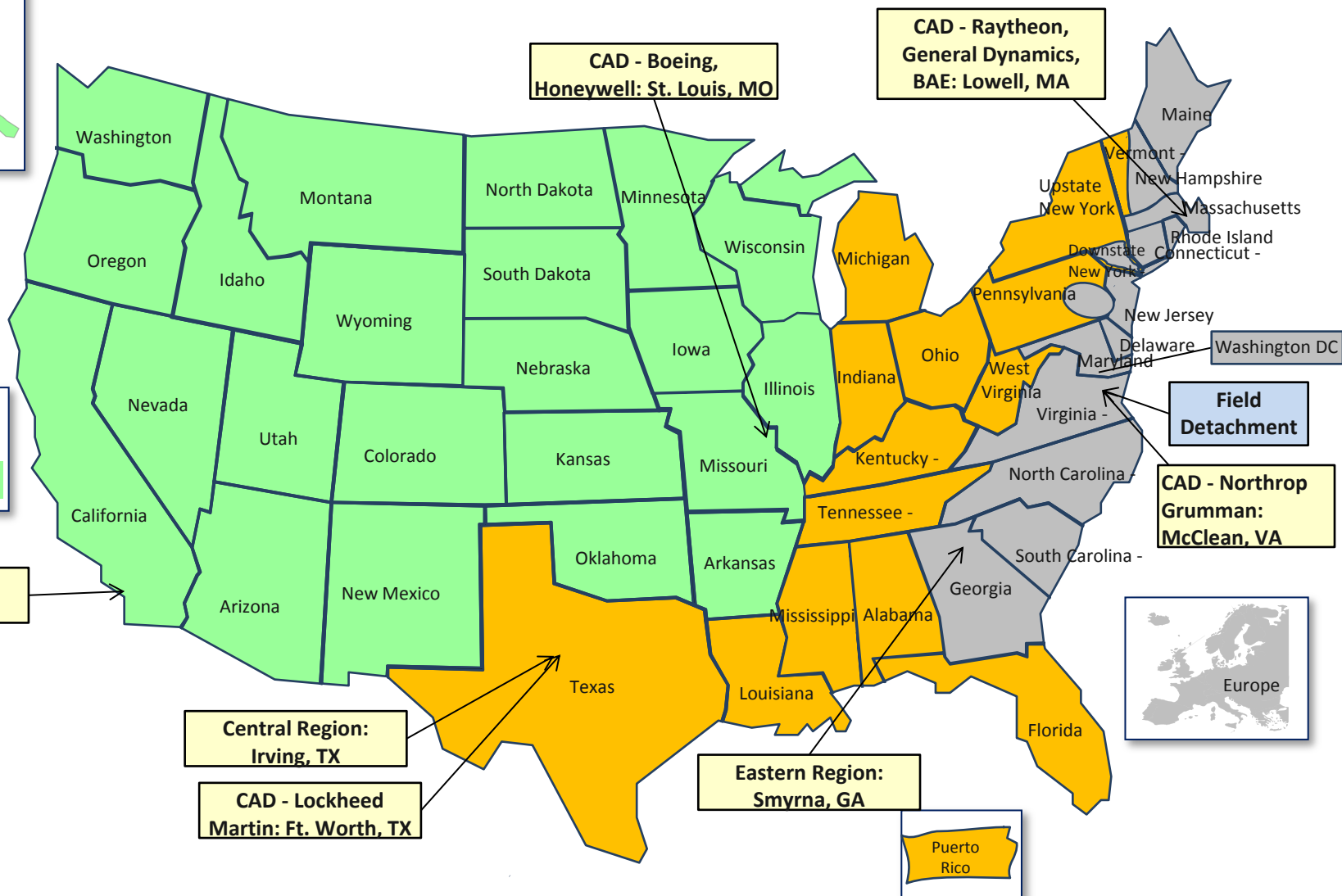
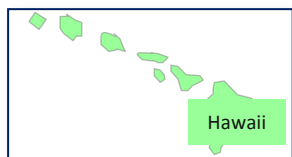
DCAA Mission

As a key member of the government acquisition team, we are dedicated stewards of taxpayer dollars who deliver high quality contract audits and services to ensure that warfighters get what they need at fair and reasonable prices.

Defense Contract Audit Agency

- Approximately 5,000 employees located at over 300 offices throughout the United States and overseas
- Responsibilities and Duties:
 - Perform all needed contract audits for DoD
 - Provide accounting and financial advisory services to DoD (and civilian when requested) acquisition and contract administration components during all contract phases:
 - Preaward
 - Contract execution
 - Settlement (contract closing)

3 Regions, Field Detachment, 4 Corporate Audit Directorates



FY 2017 Priorities

- Meeting our customers' needs on requested audits including meeting agreed-to-dates
- Completing Incurred Cost Audits in a timely manner
- Performing high risk Postaward Audits (TINA)
- Performing high risk Business System Audits
- Completing Termination Audits in a timely manner
- Performing real-time testing of Labor and Materials
- Completing Disclosure Statement Audits

DCAA Services Throughout Phases of an Award

Pre-Award

Accounting System

Proposal Review

- Labor Rates

- Indirect Rates

- Materials

- ODC

Throughout

Annual Incurred Cost Reviews

Real Time Labor and Material

CAS Compliance

Business Systems

Provisional Billing Rates/Vouchers

Progress Payments

Truth in Negotiations

Special Contracting/
Award Officer requests

Completion

Final Voucher

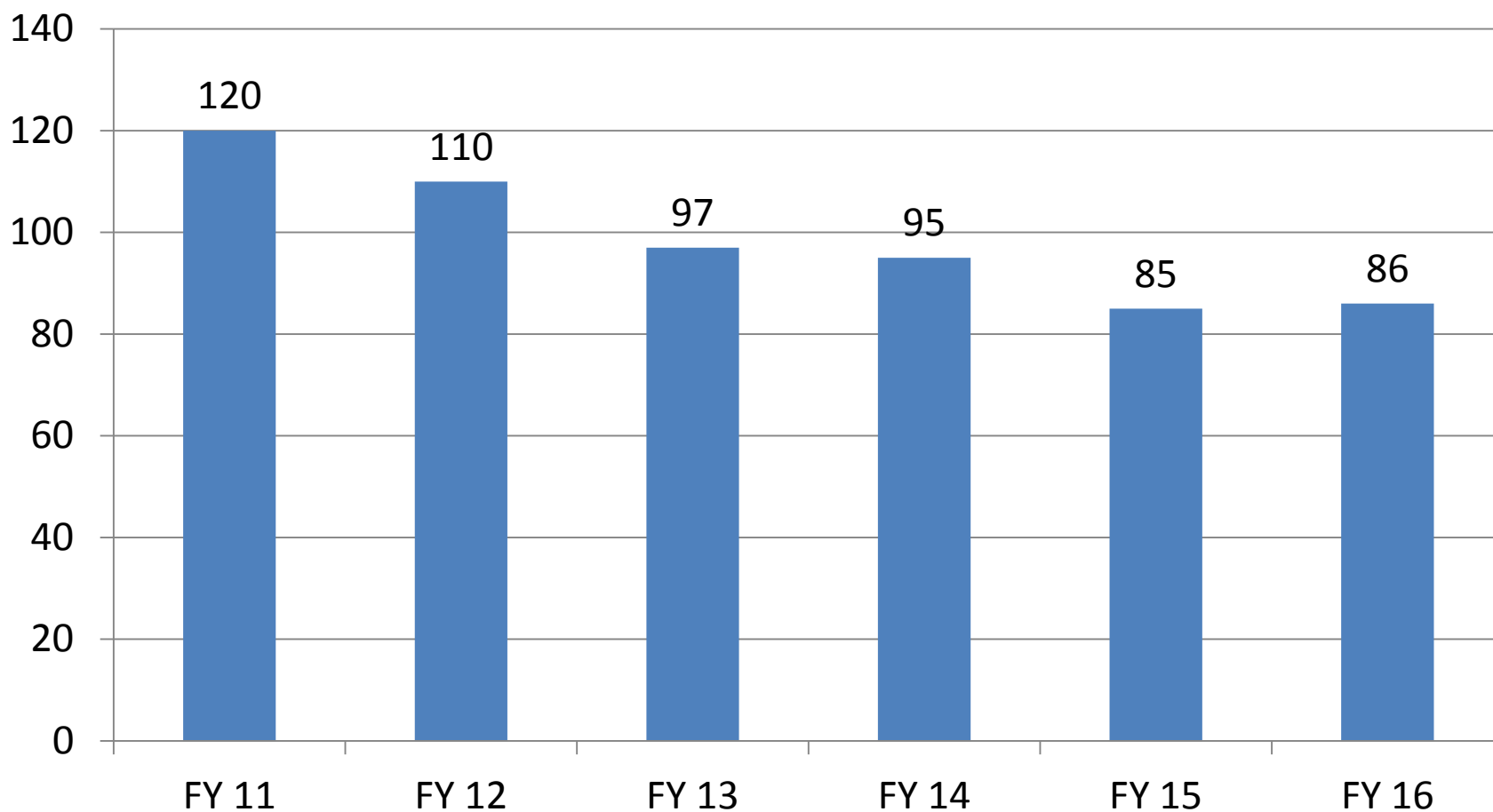
Terminations

Early Engagement

- Contracting Officer is responsible for determining the type, extent, and scope of field pricing (DCMA) and audit (DCAA) assistance
- DCMA and DCAA are committed to working together to provide effective and timely support to meet your analysis needs
- Early engagement involving DCMA and DCAA assists in effectively addressing proposal risk and identifying expected assistance

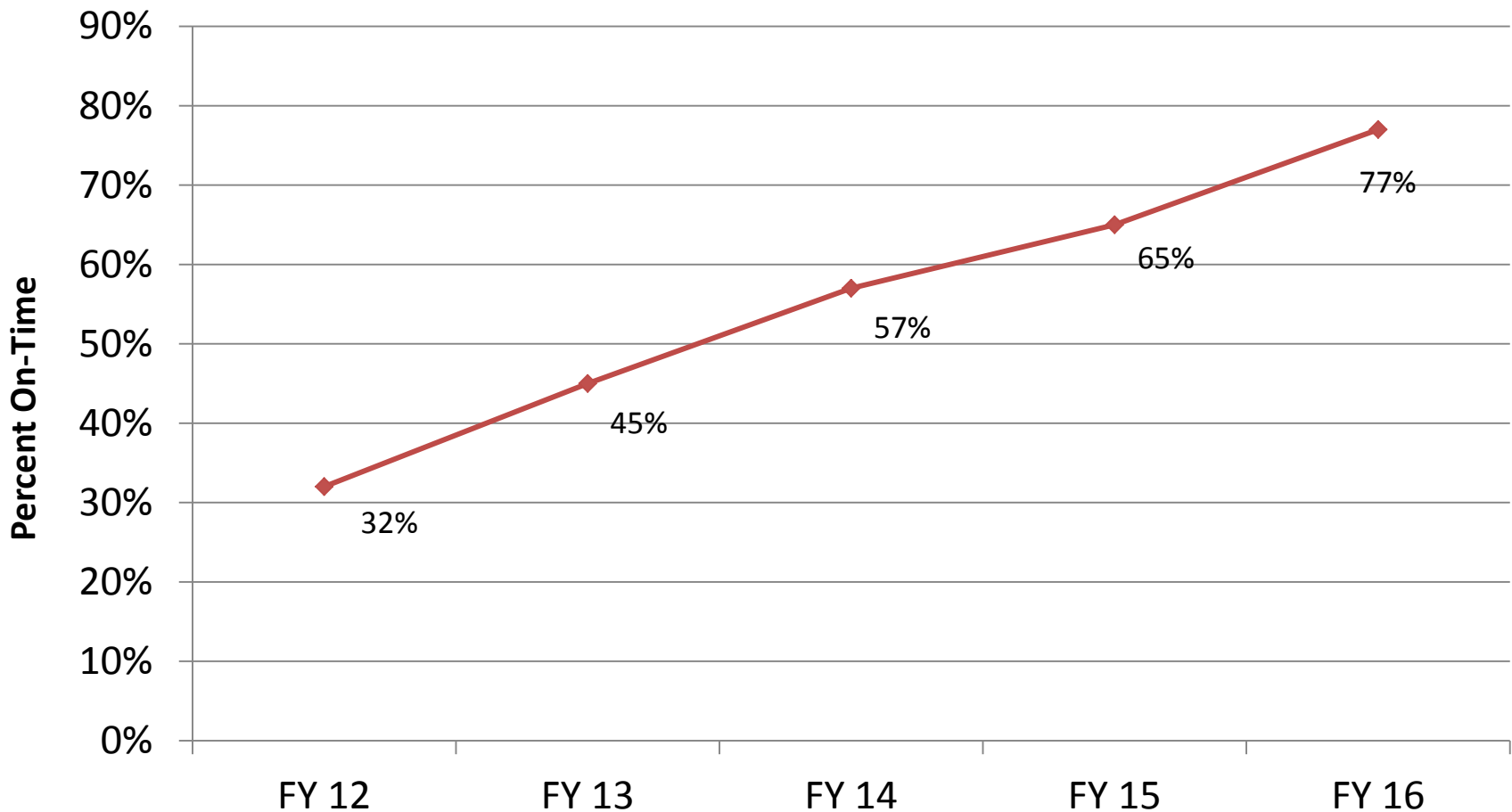
Forward Pricing Proposal Audits

Elapsed Days



Customer Focus

Improvement in Meeting Milestones



Outcome of 2016 National Defense Authorization Act (NDAA)

- Section 893 – Improved Auditing of Contracts
 - DCAA may not provide audit support for non-Defense Agencies unless the backlog for incurred cost audits is less than 18 months of incurred cost inventory
- DCAA met the requirement of less than 18 months of incurred cost inventory
- DoD Comptroller certified to Congress of this progress
- Effective October 1, 2016, DCAA resumed full audit support for non-Defense Agencies

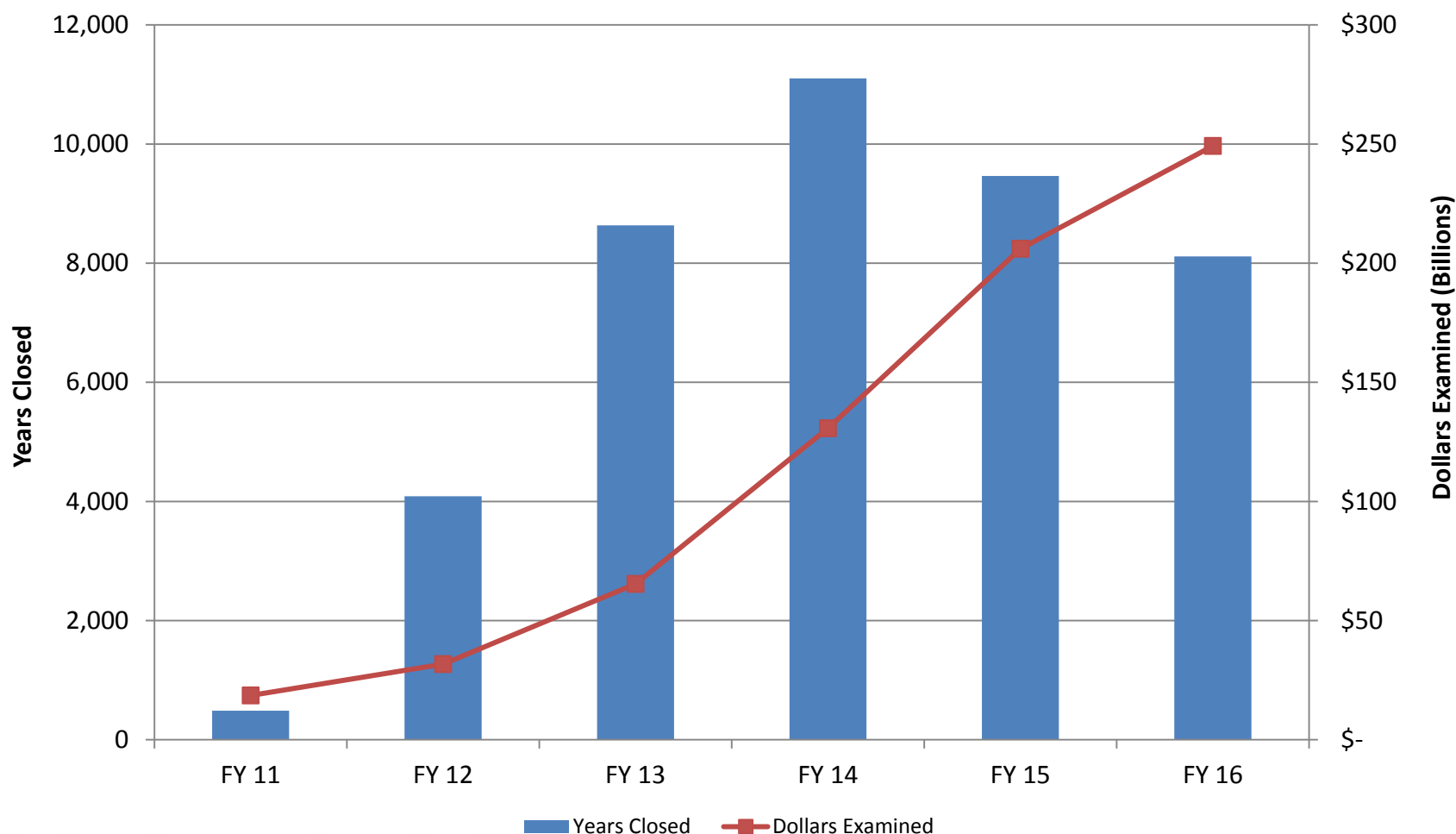
Incurred Cost Strategy

- Eliminating the Incurred Cost Backlog is an initiative under DoD's Better Buying Power 2.0
- Developed a multi-pronged approach to working down backlog in an effective manner
 - Dedicated audit teams
 - Multi-year audit techniques
 - Increased staffing dedicated to Incurred Cost
 - Implemented a low-risk sampling approach to performing incurred cost audits

Low-Risk Sampling Process

- Incurred cost proposals will be evaluated upon receipt for adequacy in accordance with FAR 52.216-7
- Adequate incurred cost proposals exceeding \$250 million in auditable dollar value will be audited
- Other incurred cost proposals received and determined adequate will be assessed for risk and classified as high or low risk
- High-risk adequate incurred cost proposals will be audited
- Low-risk adequate incurred cost proposal will be sampled using sampling parameters

Incurred Cost Years Completed and Incurred Cost Dollars Examined



Centers of Excellence

- **Business Systems** - In 2015, established a Center of Excellence at Headquarters to complete high risk system audits
- **Truth in Negotiations Compliance Audits** - In 2015, established a Center of Excellence at Headquarters to complete high risk postaward reviews
- Both Centers lead, coach, and manage the audits with the assistance of auditors residing at the FAO

Business System Audits

- FY 2016 issued 9 Material Management and Accounting System (MMAS), 4 Estimating System, and 1 Accounting System
- FY 2017 issued 1 MMAS and 2 Estimating System
- FY 2017 planned 8 MMAS, 14 Estimating System, and 4 Accounting System
- FY 2014 through 2017 issued
 - 10 Purchasing System Deficiency Reports
 - 105 Estimating System Deficiency Reports
 - 118 Accounting System Deficiency Reports

Business System Audits

- Significant issue for MMAS is lack of proper material time-phasing with schedule
 - Material received in advance of production need with no justification
 - Increased carrying costs and cost of money when material receipts are billed early
- Significant issues for Estimating
 - Inadequate Subcontractor analysis
 - Lack of support for commercial pricing, labor hours and history
 - Contractor not monitoring estimated versus actual direct and indirect rates

Truth in Negotiations Audits

- FY 2015 and forward - 65 audit reports were issued recommending \$361 million in price adjustments due to defective pricing
- Approximately 60 audits were planned and are on-going in FY 2017

Truth in Negotiations Audits

- Contractors submitted incomplete, outdated, and/or inaccurate purchase order history on:
 - Material prices and quantities
 - Material part numbers
- Contractors did not disclose updated vendor quotes and methodology used in computing material unit prices
- Contractors did not disclose changes in make/buy decisions

Truth in Negotiations Risk Factors

- Contract Type (Fixed Price is Highest Risk)
- Contract Value
- Proposal not subjected to pre-award audit
- Pre-award audit performed, but
 - Few or no updates provided during audit
 - Significant time elapsed between audited proposal date and price agreement date
 - Additional cost or pricing data or substantively new proposal provided after pre-award audit
- Contactor often ignores history in estimates
- Proposal prepared hurriedly (e.g., urgent need)

Procurement of Commercial Items

Proposed Rule Published on August 11, 2016 – DFARS Case 2016-D006

- Implements sections of the NDAA for FY 2013 and 2016 relating to commercial item acquisition
- Rule does not alter the definition of commercial items as stated in FAR Part 2
- Rule expands opportunities for R&D and technology firms to do business with DoD and expands the use of FAR Part 12 procedures
- Focus on obtaining appropriate data for determinations of **price reasonableness**, not commerciality

Impact of 2017 National Defense Authorization Act (NDAA) on DCAA

- **Section 820 – Defense Cost Accounting Standards**
 - Effective October 1, 2018
 - Creation of Defense Cost Accounting Standards Board
 - Potential for Commercial Auditor to audit indirect costs
- **Section 891 – Authority to Provide Reimbursable Auditing Services to Certain Non-Defense Agencies**
 - Adds an exception for audits of the National Nuclear Security Administration
 - Eliminates the reduction in appropriation for performing reimbursable audit work when the 18 months is met
- **Section 893 – Amendments to Contractor Business System Requirements**
 - Develop and initiate a program for the improvement of contractor business systems

Questions